

**REPORT OF THE AUDIT OF THE  
FULTON COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
May 1, 2007 Through April 28, 2008**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FULTON COUNTY  
SHERIFF'S SETTLEMENT - 2007 TAXES**

**For The Period  
May 1, 2007 Through April 28, 2008**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2007 Taxes for the Fulton County Sheriff for the period May 1, 2007 through April 28, 2008. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$2,443,818 for the districts for 2007 taxes, retaining commissions of \$94,759 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,240,074 to the districts for 2007 taxes. Taxes of \$107,782 are due to the districts from the Sheriff and refunds of \$316 are due to the Sheriff from the taxing districts.

**Report Comments:**

- 2007-1 Internal Controls Over Financial Reporting Should Be Strengthened
- 2007-2 Controls Over Computer Information Systems Should Be Strengthened
- 2007-3 The Sheriff Should Eliminate A Deficit Of \$1,383 In The Tax Account
- 2007-4 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

**Deposits:**

The Sheriff's deposits as of April 28, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$93,217

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

Independent Auditor's Report

We have audited the Fulton County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 28, 2008. This tax settlement is the responsibility of the Fulton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Fulton County Sheriff's taxes charged, credited, and paid for the period May 1, 2007 through April 28, 2008, in conformity with the modified cash basis of accounting.

The schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable David Gallagher, Fulton County Judge/Executive

Honorable Robert Hopper, Fulton County Sheriff

Members of the Fulton County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2009 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-1 Internal Controls Over Financial Reporting Should Be Strengthened
- 2007-2 Controls Over Computer Information Systems Should Be Strengthened
- 2007-3 The Sheriff Should Eliminate A Deficit Of \$1,383 In The Tax Account
- 2007-4 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With KRS 134.310

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

October 7, 2009



FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
SHERIFF'S SETTLEMENT - 2007 TAXES

For The Period May 1, 2007 Through April 28, 2008

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 245,939	\$ 374,498	\$ 1,079,090	\$ 231,034
Tangible Personal Property	37,967	98,964	183,743	144,110
Fire Protection	451			
Increases Through Exonerations	199	307	843	242
Franchise Taxes	21,627	35,695	95,200	
Bank Franchises	17,471			
Penalties	1,800	2,776	7,933	2,183
Unprinted Minimum Bills	(46)	(71)	(169)	(60)
Adjusted to Sheriff's Receipt	<u>(16)</u>	<u>(21)</u>	<u>3</u>	<u>(57)</u>
Gross Chargeable to Sheriff	<u>325,392</u>	<u>512,148</u>	<u>1,366,643</u>	<u>377,452</u>
<u>Credits</u>				
Exonerations	1,917	3,050	7,815	3,561
Discounts	4,370	6,827	18,001	5,309
Delinquents:				
Real Estate	9,555	14,549	49,443	8,975
Tangible Personal Property	231	395	895	1,928
Franchise Taxes	<u></u>	<u>996</u>	<u></u>	<u></u>
Total Credits	<u>16,073</u>	<u>25,817</u>	<u>76,154</u>	<u>19,773</u>
Taxes Collected	309,319	486,331	1,290,489	357,679
Less: Commissions (a)	<u>13,434</u>	<u>20,669</u>	<u>45,167</u>	<u>15,489</u>
Taxes Due	295,885	465,662	1,245,322	342,190
Taxes Paid	280,289	440,784	1,176,692	342,309
Refunds (Current and Prior Year)	<u>203</u>	<u>307</u>	<u>812</u>	<u>197</u>
Due Districts or (Refund Due Sheriff) as of Completion of Audit	<u>\$ 15,393</u>	<u>\$ 24,571</u>	<u>\$ 67,818</u>	<u>\$ (316)</u>
		(b)	(c)	

(a), (b), and (c) See Next Page.

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY  
 ROBERT HOPPER, SHERIFF  
 SHERIFF'S SETTLEMENT - 2007 TAXES  
 For The Period May 1, 2007 Through April 28, 2008  
 (Continued)

(a) Commissions:	
10% on \$10,000	
3.5% on \$1,290,489	
4.25% on \$1,143,329	
(b) Special Taxing Districts:	
Library District	\$ 10,113
Health District	4,789
Extension District	7,446
Soil Conservation	200
Mental Health	2,023
	<hr/>
Due Districts	✓ \$ 24,571
	<hr/>
(c) School Districts	
Fulton County School	\$ 28,753
Fulton Independent School	39,065
	<hr/>
Due Districts	\$ 67,818
	<hr/>

The accompanying notes are an integral part of this financial statement.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT

April 28, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Fulton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

FULTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
April 28, 2008  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Fulton County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On April 28, 2008, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$93,217

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2007. Property taxes were billed to finance governmental services for the year ended June 30, 2008. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 28, 2007 through April 28, 2008.

Note 4. Interest Income

The Fulton County Sheriff earned \$1,733 as interest income on 2007 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office. As of October 7, 2009, the Sheriff owed \$389 in interest to the school districts and \$430 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Fulton County Sheriff collected \$12,164 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office. As of October 7, 2009, the Sheriff owed \$1,224 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Fulton County Sheriff collected \$1,045 of advertising costs and \$1,130 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of October 7, 2009, the Sheriff owed \$1,045 in advertising costs to the county and \$1,130 in advertising fees to his fee account.

FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS

April 28, 2008

Assets

Cash in Bank (All Tax Accounts)	\$	174,408
Collected Receivables		11,107
Uncollected Receivables-		
Prior-Year Uncollected Receivables	\$	100,925
Overpayment of 2006 State Taxes		175
Overpayment of Franchise Taxes to Districts		9,801
Overpayment of Commissions of P/Y Amounts		391
Overpayment of Commissions Due From County Schools		1,017
Receivable Due From County School		23,085
Dept of Revenue Penalty Due From Fee Account		61
Other Taxing Districts-		
State		316
		<hr/>
Total Uncollected Receivables		135,771
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Total Assets		321,286
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Liabilities

Paid Obligations-		
Outstanding Checks		2,575
Outstanding Liabilities		48,817
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Total Paid Obligations		51,392
Unpaid Obligations-		
Prior-Year Unpaid Liabilities		152,566
Other Taxing Districts-		
County		15,393
County School		28,753
Independent School		39,065
Library		10,113
Health		4,789
Extension		7,446
Soil Conservation		200
Mental Health		2,023
Refunds Due Taxpayers		392

FULTON COUNTY  
 ROBERT HOPPER, SHERIFF  
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS  
 April 28, 2008  
 (Continued)

Liabilities (Continued)

Unpaid Obligations (Unpaid)-

Interest Due Sheriff's Fee Account	\$	430
Interest Due County School		201
Interest Due Independent School		188
10% Add-On Fees Due Sheriff's Fee Account		1,224
2nd Notice Fees Due Sheriff's Fee Account		1,130
Advertising Fees Due County Treasurer		1,045
Commissions Due Fee Account		221
Telecom Commissions Due Fee Account		1,699
Overpayment of Bank Shares Due Banks		350
Overpayment of School Tax Due to Wrong Rate		1,328
Funds To Be Escrowed For 2006 Tax Year		<u>2,721</u>

Total Unpaid Obligations		<u>\$ 271,277</u>
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Total Liabilities		<u>322,669</u>
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Total Fund Deficit as of April 28, 2008		<u><u>\$ (1,383)</u></u>
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Gallagher, Fulton County Judge/Executive  
Honorable Robert Hopper, Fulton County Sheriff  
Members of the Fulton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Fulton County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 28, 2008, and have issued our report thereon dated October 7, 2009. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fulton County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fulton County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fulton County Sheriff's internal controls over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting.

- 2007-1 Internal Controls Over Financial Reporting Should Be Strengthened
- 2007-2 Controls Over Computer Information Systems Should Be Strengthened
- 2007-3 The Sheriff Should Eliminate A Deficit Of \$1,383 In The Tax Account



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fulton County Sheriff's Settlement - 2007 Taxes for the period May 1, 2007 through April 28, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

2007-4 The Sheriff's Annual Tax Settlement Should Be Prepared In Accordance With  
KRS 134.310

The Fulton County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Fulton County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

October 7, 2009

## COMMENTS AND RECOMMENDATIONS



FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period May 1, 2007 Through April 28, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES:

2007-1 Internal Controls Over Financial Reporting Should Be Strengthened

The Sheriff's office lacks adequate segregation of duties in the following areas:

- The Sheriff's deputy responsible for preparing the daily checkout sheet also collects money and prepares the daily deposit.
- The Sheriff's bookkeeper, who is responsible for preparing monthly tax reports and tax distributions, also collects money.

While the Sheriff has implemented compensating controls to offset the lack of segregation of duties, failures in the operation of those compensating controls have been noted. As a result, we recommend the following additional controls be implemented to strengthen the Sheriff's internal controls over tax collections and distributions.

- The Sheriff or his designee should review daily deposits prepared by another staff member and agree them to daily collections reports, reconciling any discrepancies timely.
- The Sheriff or his designee should review franchise tax collection and disbursement reports for accuracy and completeness at the end of each month.
- The Sheriff should perform the monthly bank reconciliation, reconciling bank receipts and disbursements to the monthly tax reports and tax distributions.
- The Sheriff should agree cancelled checks for refunds to the refunds disclosed on the monthly reports.

*Sheriff's Response: Our office staff is small and everybody has to collect tax some time. We try to keep it minimal.*

2007-2 Controls Over Computer Information Systems Should Be Strengthened

During the course of our audit, auditor noted, through observation of the Sheriff's tax collection computer system and personal use of the system to extract data, substantial weaknesses in controls and security over the system. Two computers are setup in the Sheriff's front office for use of tax collections, with a cash drawer between the two computers. These same computers are also used by the public doing searches for tax and title search information in the county. This allows the public to be behind the front counter with immediate access to the cash drawer with little or no staff supervision. Further, the computers are supposed to be logged off by staff immediately after collecting taxes from a taxpayer, and any member of the public using the computers for research are to log on as guests, which limits their access to information. However, if an office staff member were to forget to log off as the user of the computer, any member of the public using that computer would have access to all operations of the computer system, including payment and/or exoneration entries. Auditor also noted that user name and passwords are not adequate to safeguard the system. Finally, auditor noted that programming weaknesses in the computer software provided potential for material errors. These include inconsistent reports to support collections and disbursements, as well as an ability to easily mark bills paid when no money is actually collected without knowledge of doing so.

FULTON COUNTY  
 ROBERT HOPPER, SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period May 1, 2007 Through April 28, 2008  
 (Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCIES & MATERIAL WEAKNESSES  
(Continued):

2007-2 Controls Over Computer Information Systems Should Be Strengthened (Continued)

In order to correct the weaknesses noted above, auditor recommends the Sheriff work with software provider to correct weaknesses in software security and data entry. He should further create a separate terminal in another location of the office for public use only to enhance software and cash security.

*Sheriff's Response: This has been taken care of for the new collection year.*

2007-3 The Sheriff Should Eliminate A Deficit of \$1,383 In The Tax Account

After thorough review of available reports and bank records, our audit determined that there is a deficit of \$1,383 in the Sheriff's official tax account. This deficit is due primarily to an unexplained shortage in deposits on March 31, 2008 when compared to the daily collections report for that day. As collector of property taxes, the Sheriff assumes full responsibility for all tax collections and complete distribution of these collections to the proper taxing authority. In order to properly distribute 2007 tax collections, we recommend the Sheriff eliminate the deficit in the 2007 tax account with a deposit of \$1,383 from personal funds. We further recommend the Sheriff, in the future, deposit daily collections intact and immediately reconcile deposits to collection reports in order to explain and correct deposit shortages timely.

*Sheriff's Response: Will comply as directed by auditor.*

STATE LAWS AND REGULATIONS:

2007-4 The Sheriff's Annual Tax Settlement Should Prepared Accurately An In Accordance  
With KRS 134.310

Prior to necessary audit adjustments, the Sheriff's 2006 tax settlement was materially misstated due to deficiencies in internal controls and computer tax software, and through the exclusion of franchise tax collections and all tax distributions. KRS 134.310 (5) states, "In counties containing a population of less than seventy thousand (70,000), the sheriff shall file annually with his final settlement:

- (a) A complete statement of all funds received by his office...
- (b) A complete statement of all expenditures of his office..."

FULTON COUNTY  
ROBERT HOPPER, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period May 1, 2007 Through April 28, 2008  
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

2007-4    The Sheriff's Annual Tax Settlement Should Prepared Accurately An In Accordance  
            With KRS 134.310  
            (Continued)

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We recommend the Sheriff comply with KRS 134.310 by including franchise tax collections and tax distributions on his annual tax settlement that is presented to and approved by fiscal court. Further, the Sheriff or an appointed designee should perform a thorough review of the annual tax settlement. This review should include tracing amounts on the settlement to the source documentation, recalculating these amounts, and also checking the mathematical accuracy of the settlement. Also, this review should include comparing the amount of taxes collected on the settlement to the taxes collected on the monthly tax reports. Such a review will lessen the chance of a material misstatement of the Sheriff's annual tax settlement and assure its compliance with KRS 134.310.

*Sheriff's Response: It will be taken care of in the new year.*

